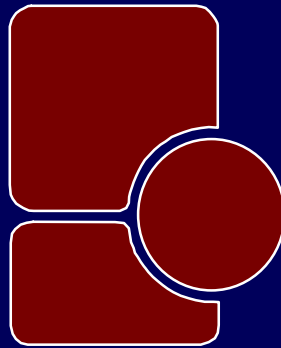


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



Review of RMA and Powhite Parkway Extension Toll Facility Operations

**Staff Briefing
December 19, 2000**

Introduction

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Staff for this study:

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Presentation Outline

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- ☒ Study Overview and Summary of Findings
 - ☐ Overview of the RMA and Powhite Parkway Extension Toll Facilities
 - ☐ RMA and Powhite Parkway Extension Financing and Debt Structure
 - ☐ Review of Administrative Processes and Areas for Cost Savings
 - ☐ Early Retirement of Debt and Removal of Tolls

Study Mandate

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- **House Joint Resolution 64 of the 2000 General Assembly directed JLARC to review**
 - **The amount of debt issued on the toll facilities**
 - **Use of toll revenues**
 - **Policies in place to ensure the management of revenue and debt**
- **In addition, the review was directed to identify the resources and schedule appropriate for retirement of debt to allow toll-free operation**

Research Activities

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■ Structured interviews

- RMA staff and members of the Board of Directors, VDOT central office staff, Richmond District Office staff, Powhite Parkway Extension staff, and Dulles Toll Road staff
- Chesterfield County, Henrico County, and City of Richmond staff

■ Data analysis

- RMA and Powhite Parkway Extension budget data
- RMA financial forecast model

■ Site visits

■ Document reviews

Summary of Findings

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- At the end of FY 2000, the RMA expressway system's outstanding debt totaled \$202.2 million. For the Powhite Parkway Extension, outstanding debt at the end of FY 2000 totaled more than \$114 million.
- The RMA has been able to operate without financial support from the City of Richmond since 1990. However, the Powhite Parkway Extension has required almost annual financial support from the State since opening in 1988.

Summary of Findings

(continued)

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- Although the RMA does not co-mingle the funds of its various enterprises as required by existing bond covenants, the RMA should formally approve draft documentation of existing internal procedures to ensure continued compliance with bond requirements. In addition, policies regarding use of excess balances fund revenue should be developed and approved by the RMA board.
- To increase the amount of revenue available for debt retirement, limiting the growth of RMA's administrative and operating costs should be addressed and financing State Police services on the Powhite Parkway Extension with other sources of revenue could be considered.

Summary of Findings

(continued)

- The RMA and Powhite Parkway Extension plan to retire senior bond debt by 2022 and 2011 respectively. However, a substantial amount of subordinate debt -- about \$150 million -- will be outstanding on both facilities and tolls will continue to be required to repay that debt for some time.
- Retirement of all debt on both facilities does not ensure the removal of tolls on either the RMA or Powhite Parkway Extension toll roads. However, a proposed plan for toll free operation is presented for the General Assembly's consideration.

Presentation Outline

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Overview of the RMA

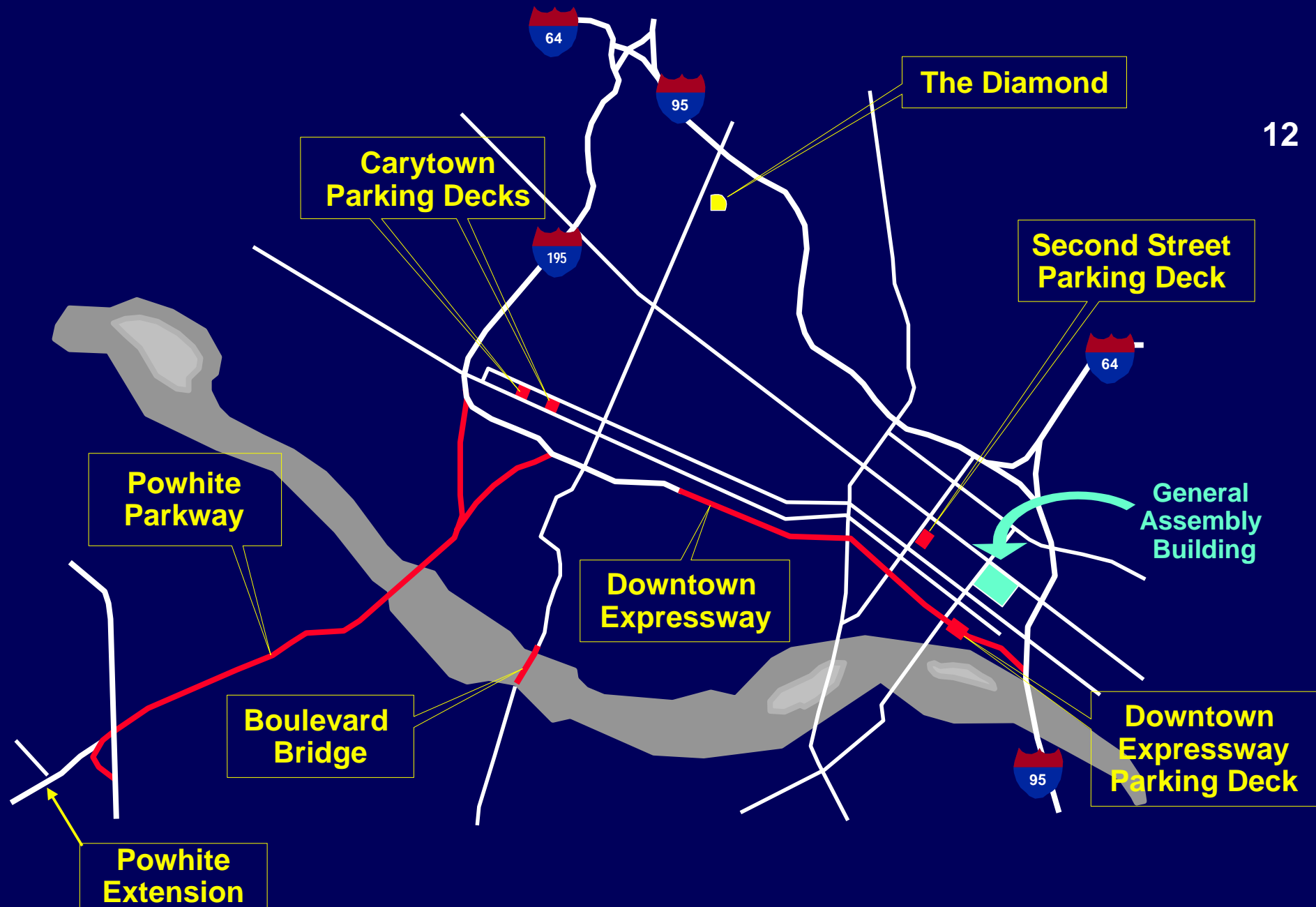
10

- **The RMA was created in 1966 to construct and operate highways and transit properties**
 - **Subsequently, the RMA was authorized to construct and operate parking and sports facilities**
- **RMA is governed by an 11-member Board of Directors**
 - **Six members are appointed by the City of Richmond, two each by Chesterfield and Henrico Counties, and one ex-officio member is appointed by the Commonwealth Transportation Board**

Overview of the RMA Facilities

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- **The RMA currently owns and operates**
 - The Boulevard Bridge, Downtown Expressway, and Powhite Parkway toll facilities
 - Three parking decks in the City of Richmond
 - The Diamond baseball stadium
- **The Boulevard Bridge, the Downtown Expressway, and Powhite Parkway constitute the RMA's toll-road system**
 - Toll rates on the Boulevard Bridge are \$0.25 and \$0.50 at the mainline toll plazas on the Downtown Expressway and Powhite Parkway



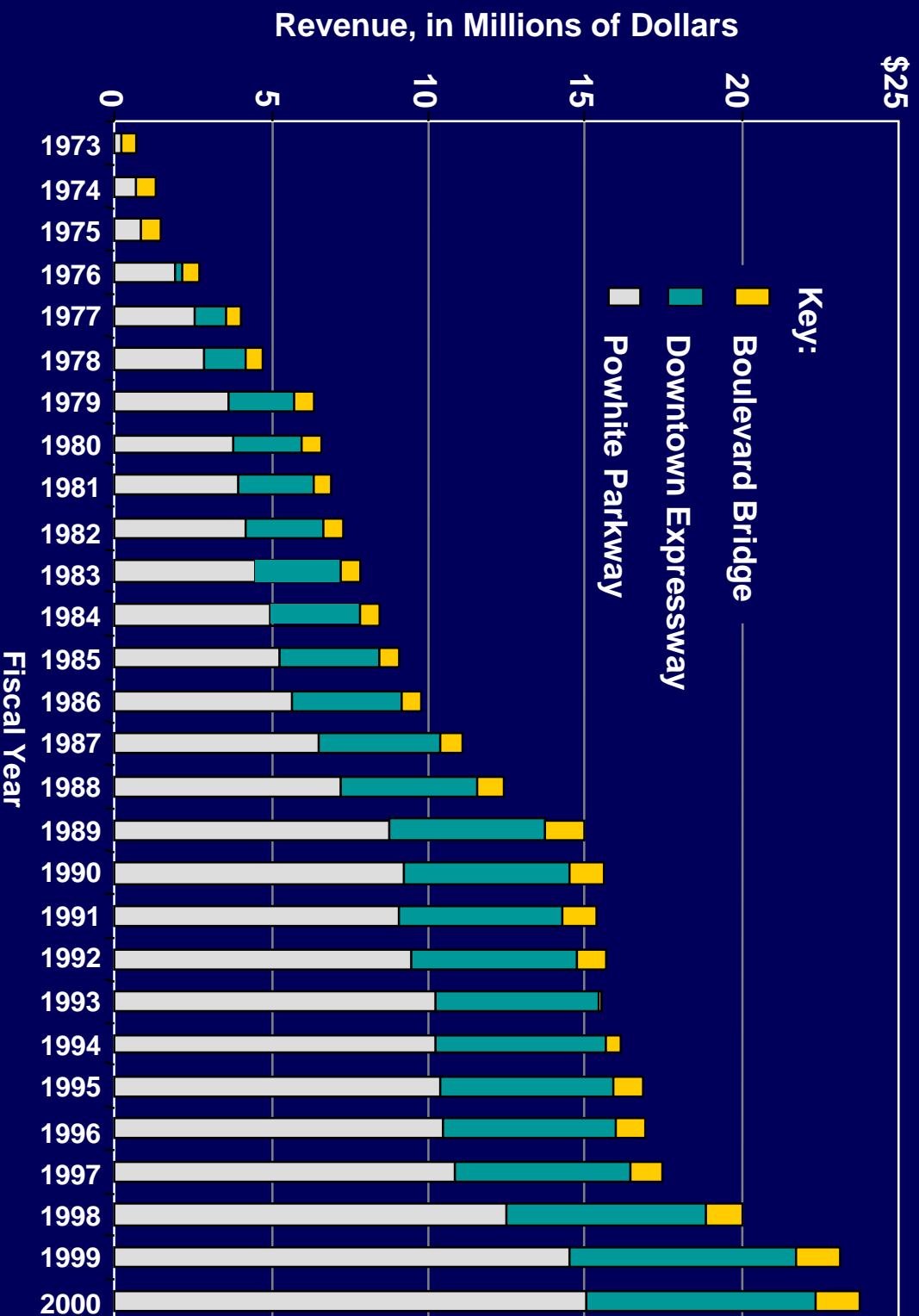
RMA's Highway, Parking, and Sport Facilities

RMA Expressway System Traffic and Revenue

13

- **Vehicular traffic on the RMA expressway system has increased from less than 10 million vehicles annually in FY 1973 to more than 50 million in FY 2000**
 - **The Powhite Parkway carries more than 50 percent of the system's total traffic**
- **In FY 2000, the RMA expressway system collected more than \$23 million in toll revenue**
 - **Tolls rates have increased four times since the expressway system opened with the last increase occurring in 1998**

RMA Expressway System Revenue, FY 1973 - FY 2000

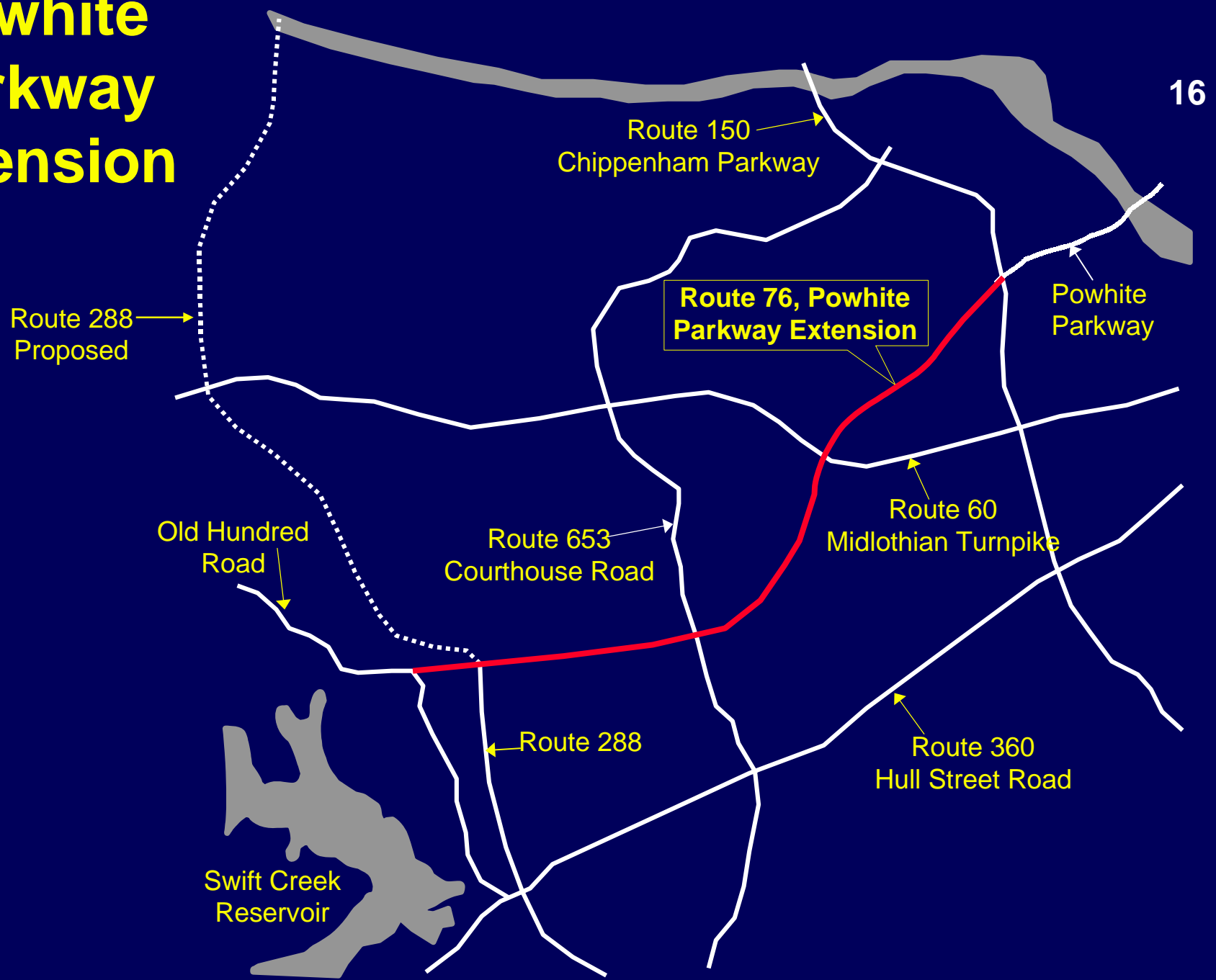


Overview of VDOT's Powhite Parkway Extension Toll Road

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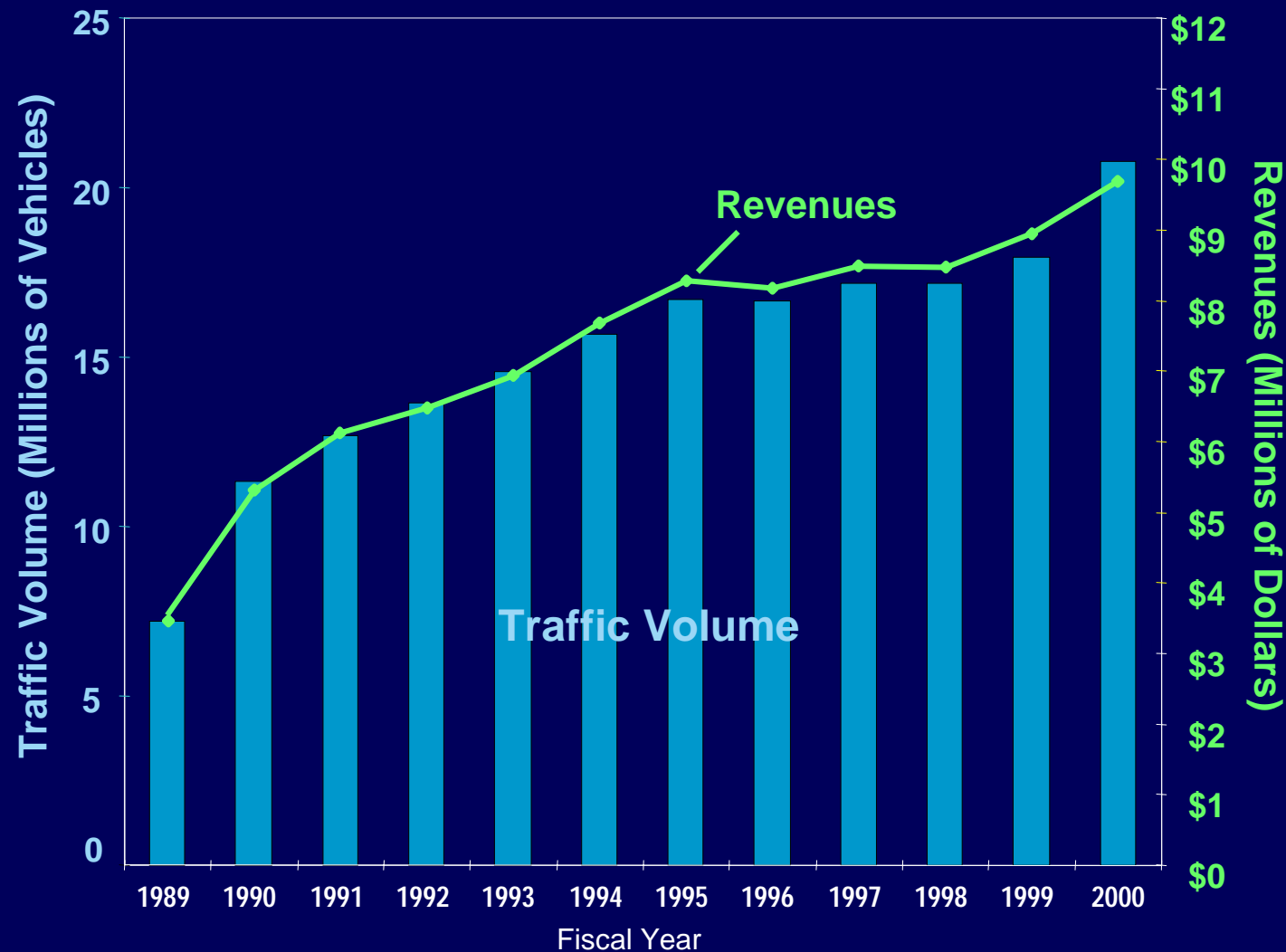
- VDOT's Powhite Parkway Extension extends from the end of the RMA Powhite Parkway west into Chesterfield County to State Route 288
 - The Extension was opened to traffic in 1988
- In FY 2000, almost 21 million vehicles traveled on the Extension and VDOT collected \$9.7 million in toll revenues
- Tolls are \$0.75 at the main plaza and \$0.50 and \$0.25 at ramp plazas
 - Tolls have never been increased on the Extension

Powwhite Parkway Extension



Powwhite Parkway Extension Traffic and Revenues, FY 1989 - FY 2000

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Presentation Outline

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- ☐ Study Overview and Summary of Findings
- ☐ Overview of the RMA and Powhite Parkway Extension Toll Facilities
- ☒ **RMA and Powhite Parkway Extension Financing and Debt Structure**
- ☐ Review of Administrative Processes and Areas for Cost Savings
- ☐ Early Retirement of Debt and Removal of Tolls

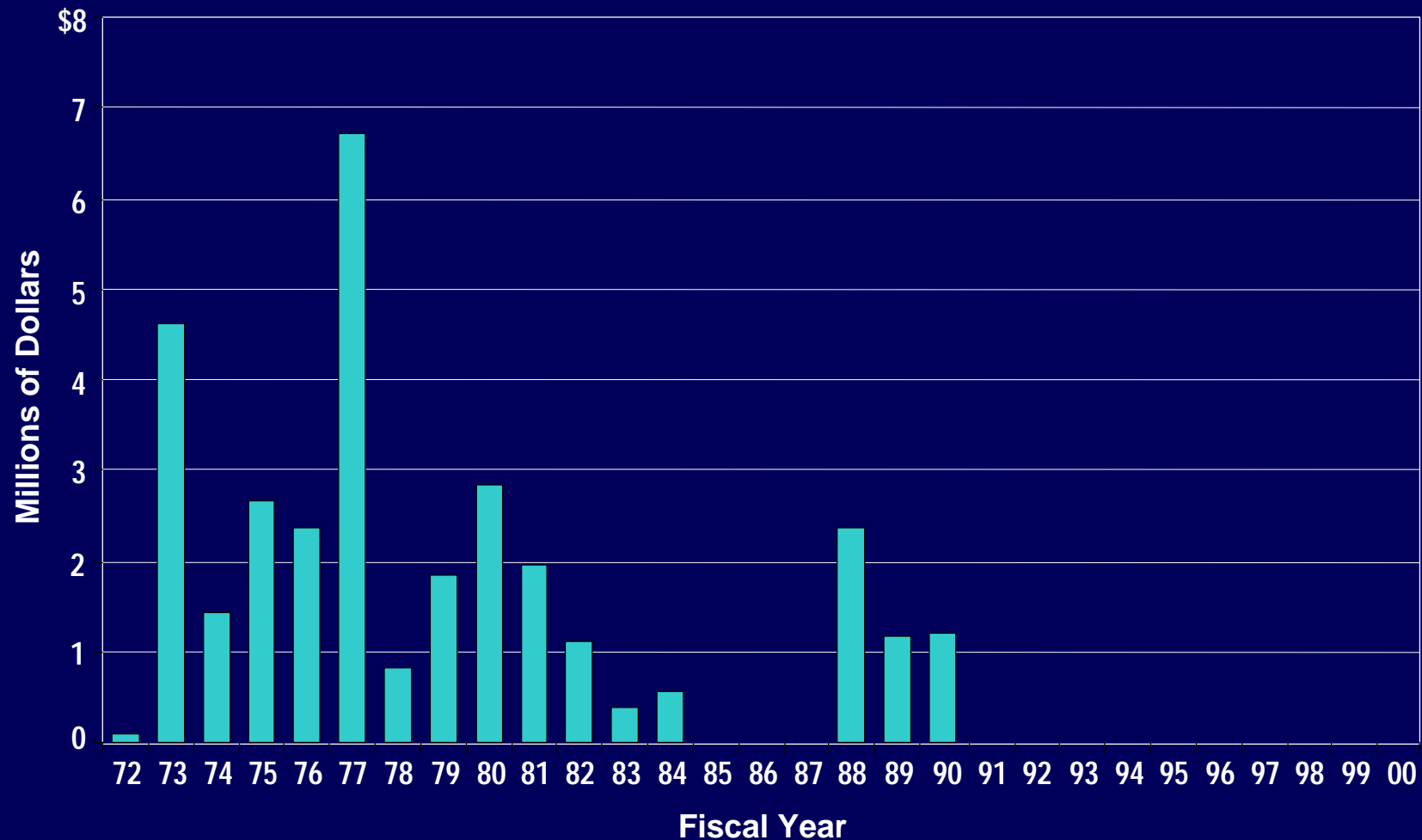
Financing and Debt Structure of the RMA Expressway System

19

- Initial construction of RMA's toll roads was accomplished from the proceeds of revenue bond issues totaling \$125.5 million
 - Final maturity of these bonds originally was 2013
- The City of Richmond provided initial financial support by using its moral obligation for the RMA's initial bond issue as well as funding the required debt reserve fund
 - The City of Richmond provided funding to cover the expressway system's operating expense shortfalls in 16 years from FY 1972 through FY 1990

City of Richmond Financial Support to the RMA Expressway System

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Bond Requirements Impact RMA's Administration of Expressway System

21

- The RMA's revenue bonds contain a number of covenants designed to protect the bondholders' interests in the expressway system
 - Independent engineers are required to determine the condition of the expressway's physical assets and the funding required to effect needed repairs
 - Independent traffic consultants are required to certify that revenues are sufficient to meet debt service coverage ratios
- Application of expressway revenue is also controlled by the bond covenants

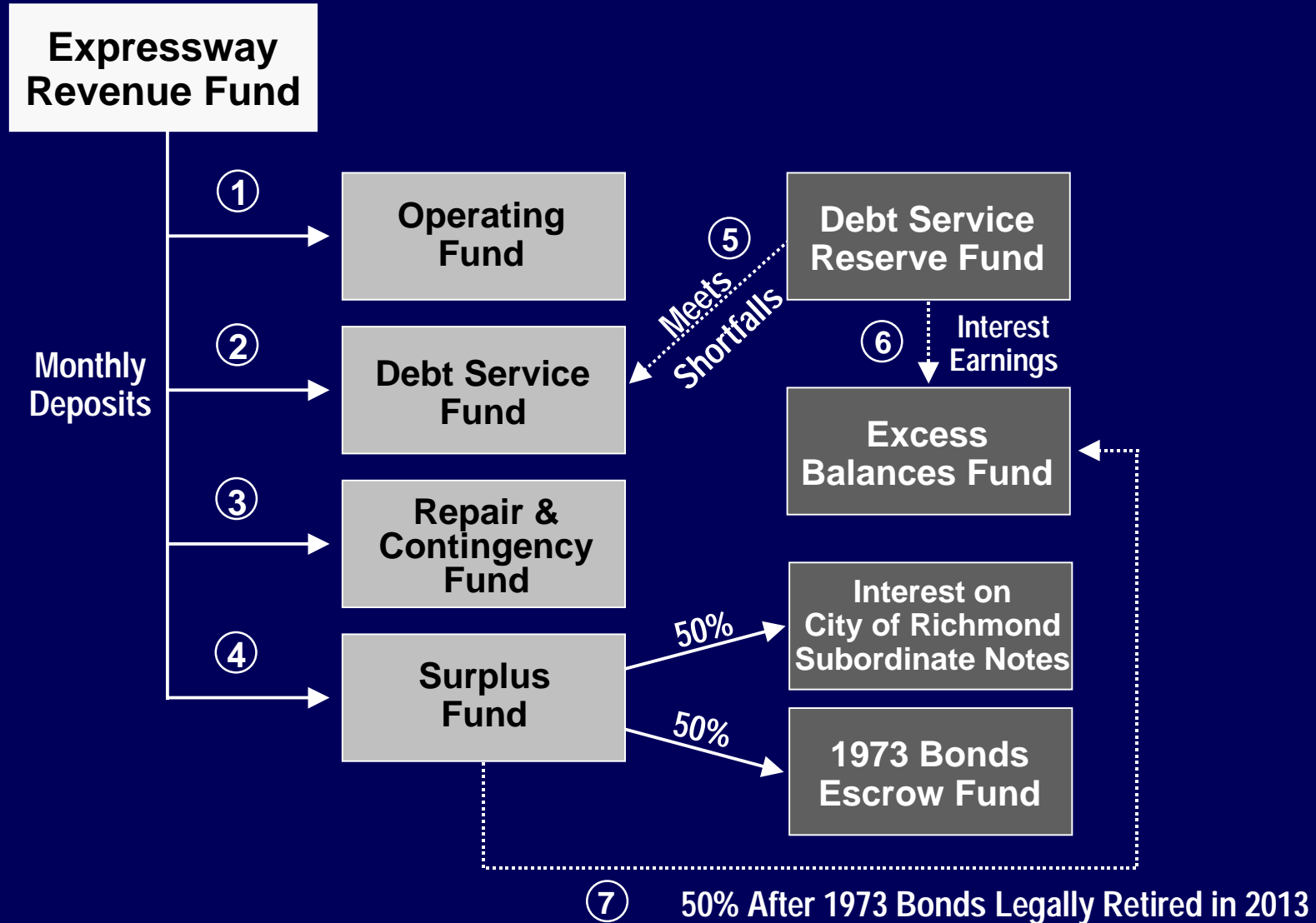
Required Flow of Funds for the RMA Expressway System

Key:

Normal Flow: —————>

Contingent Flow:>

22



RMA's 1992 Financial Restructuring

23

- A major financial restructuring of the RMA expressway system was completed in 1992 to accomplish a number of objectives
 - Provide funding for capital construction projects
 - Establish an unrestricted reserve fund
 - Repay funding the City of Richmond had provided for the debt service reserve fund
- However, the restructuring extended final maturity on the revenue bonds from 2013 to 2022

Subsequent Bond Issues and Toll Increase Improved Financial Structure

24

- The RMA has issued bonds four times since 1992
 - 1996 issue enabled the RMA to comply with debt service coverage requirements and avoid a toll increase
 - 1998, 1999, and 2000 issues generated about \$6.7 million in debt service savings through 2022
- RMA increased tolls in 1998 to fund capital projects like electronic toll collection and prepare the system for the anticipated reduction in traffic due to the opening of State Route 288
- Current financial condition is reflected by the A-rating RMA received for its 2000 series bond issue

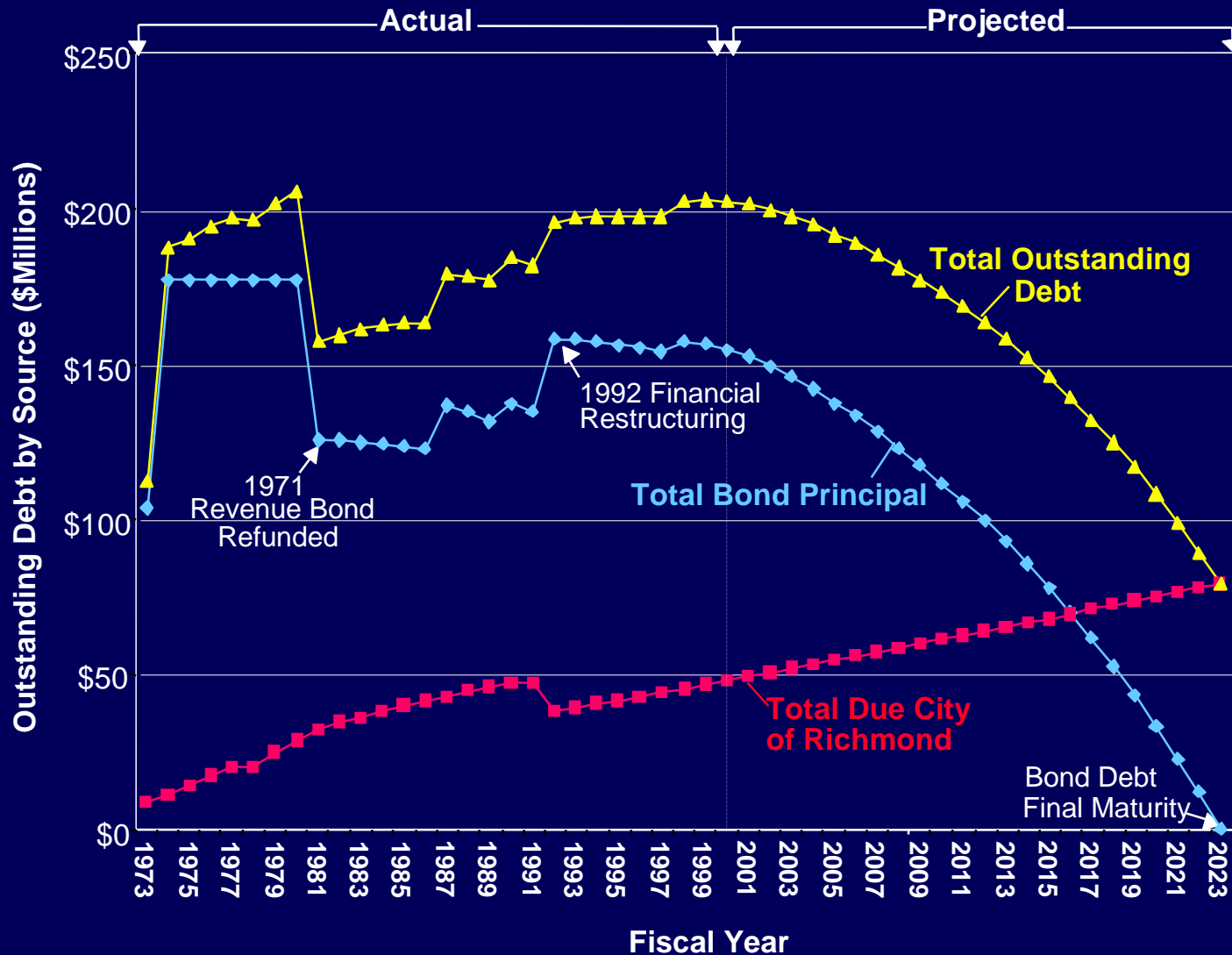
RMA Expressway System Outstanding Debt Structure

25

- RMA's expressway system's outstanding debt as of FY 2000 totaled \$202 million
- Revenue bond debt totaled \$154.6 million
 - Revenue bond debt is currently scheduled to be retired in July 2022
- Subordinate debt owed to the City of Richmond totaled \$47.6 million
 - Due to annual interest, subordinate debt could total more than \$76 million in 2022

RMA Expressway System Debt Structure FY 1973 - FY 2023

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Financing and Debt Structure of the Powhite Parkway Extension

27

- Construction of the Powhite Parkway Extension was financed through a variety of sources
 - \$78 million from Commonwealth revenue bonds
 - \$22 million from Chesterfield County
 - \$23 million from VDOT and other sources
- Revenue shortfalls on the Powhite Parkway Extension have required \$30.2 million in interest-free support from the Toll Facilities Revolving Account
- VDOT's Richmond District Office provides all required maintenance on the Extension

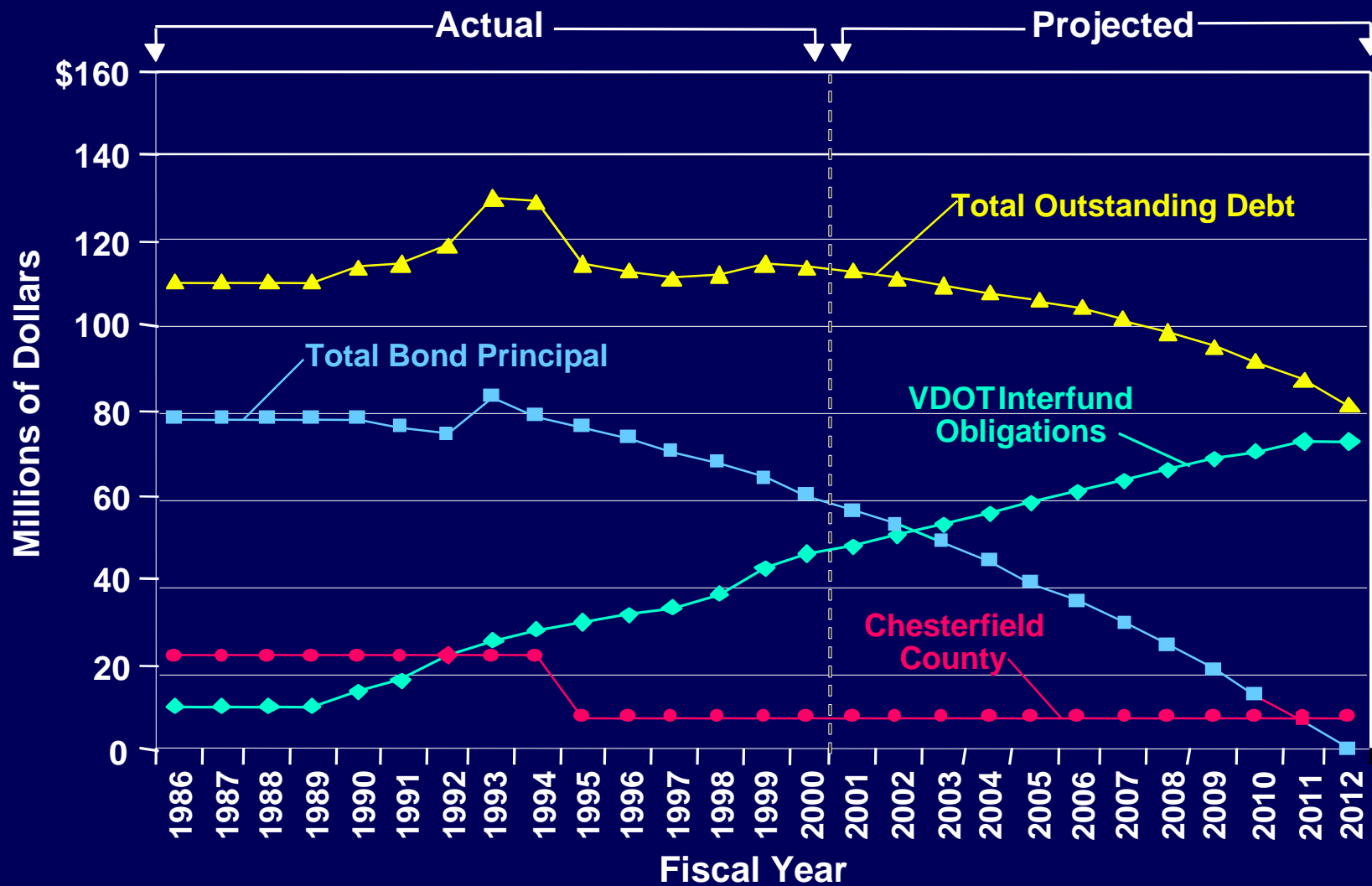
Powwhite Parkway Extension Outstanding Debt Structure

28

- Powwhite Parkway Extension's outstanding debt as of FY 2000 totaled \$114.1 million
- Revenue bond debt totaled \$60.3 million
 - Revenue bond debt is currently scheduled to be retired in July 2011
- Subordinate debt owed to the Toll Facilities Revolving Account and other sources totaled almost \$54 million
 - By 2011, outstanding subordinate debt could total almost \$80 million

Powwhite Parkway Extension Debt Structure FY 1986 - FY 2012

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Approved Policies for Selected RMA Financial Processes Are Needed

31

- The RMA expressway system's bond resolution requires revenues to be used solely for the purpose of operating and maintaining the toll roads
 - Audits of the RMA by an independent accounting firm have resulted in unqualified opinions
- In addition, RMA has established clear internal processes for accounting for expressway expenses to prevent co-mingling with other enterprises
 - However, only draft policies and procedures are currently available for staff use

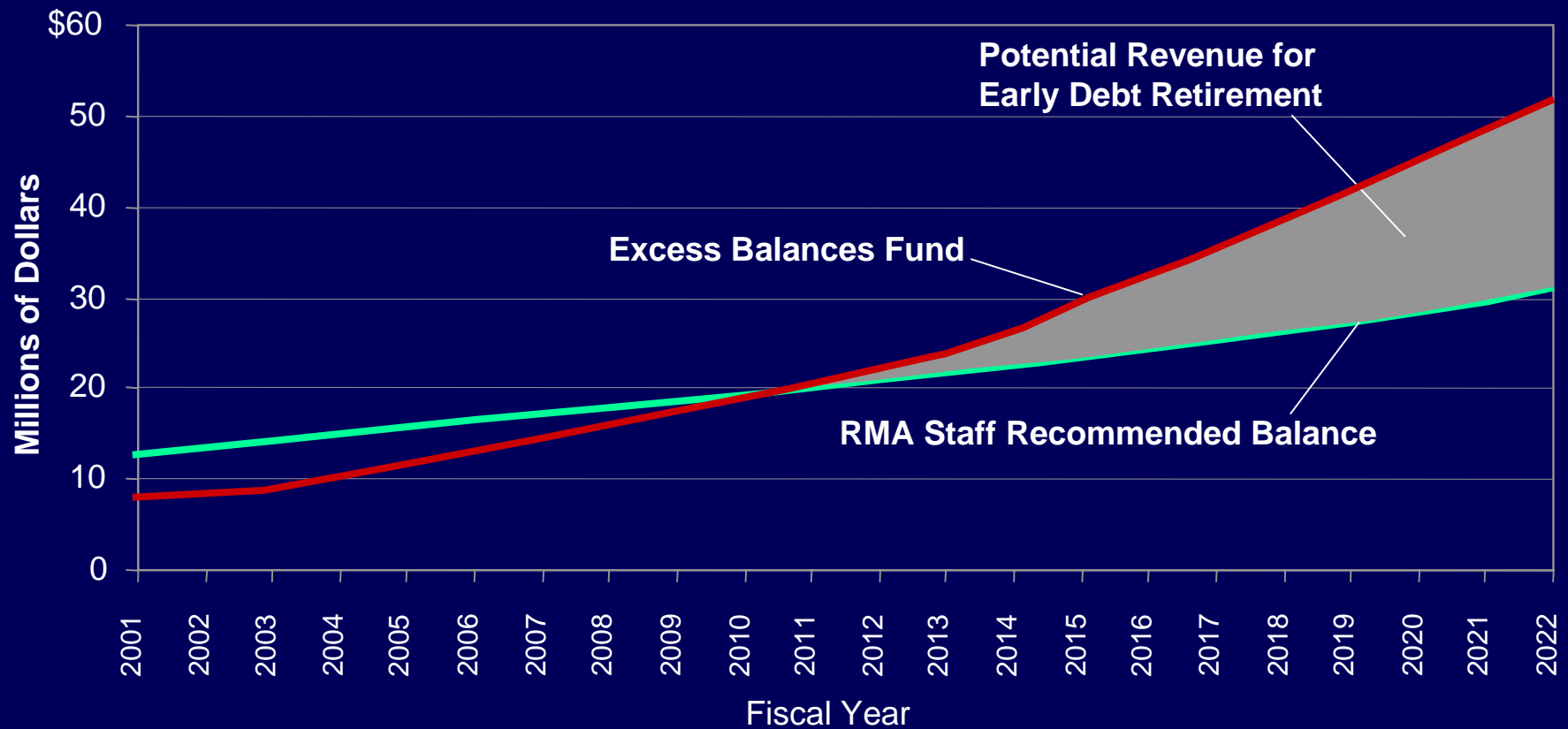
Board Approved Policies Governing the Excess Balances Fund Are Needed

32

- The RMA's excess balances fund was created as an unrestricted reserve fund through the 1992 financial restructuring
- The revenue in the fund can be used for any lawful purpose related to the expressway system, including unexpected contingencies and debt retirement
 - RMA staff believe that a minimum of two years of operating expenses should be maintained in the fund
- There are no Board approved policies that state the minimum level of funding to be maintained in the fund and allowable uses of the revenue

Projected Excess Balances Fund Revenue and Recommended Minimum Fund Balance, FY 2001 - FY 2022

33



Allocation of Administrative Costs Should Be Monitored

34

- RMA allocates central administrative costs across the expressway system and the four remaining enterprises
 - The percentage allocated to the expressway system has increased every year from 79 percent in FY 1990 to 87 percent in FY 2000
- The Powhite Parkway Extension will soon allocate administrative staff time between the Extension and I-895
 - Monitoring allocation of personnel expenses between those these two facilities will be necessary

Recommendations

35

- **The Richmond Metropolitan Authority should**
 - **Complete the process of developing written policies and procedures governing the authority's internal financial processes**
 - **Develop, for approval by the authority's Board of Directors, policies and procedures governing the expressway system's excess balances fund**
 - **Conduct a review of the allocation of the administrative costs across all of the authority's enterprises and provide a report to the Board of Directors**
- **After the Pocahontas Parkway begins operation, Powhite Parkway Extension staff should monitor the allocation of administrative time between the Parkway and the Powhite Parkway Extension.**

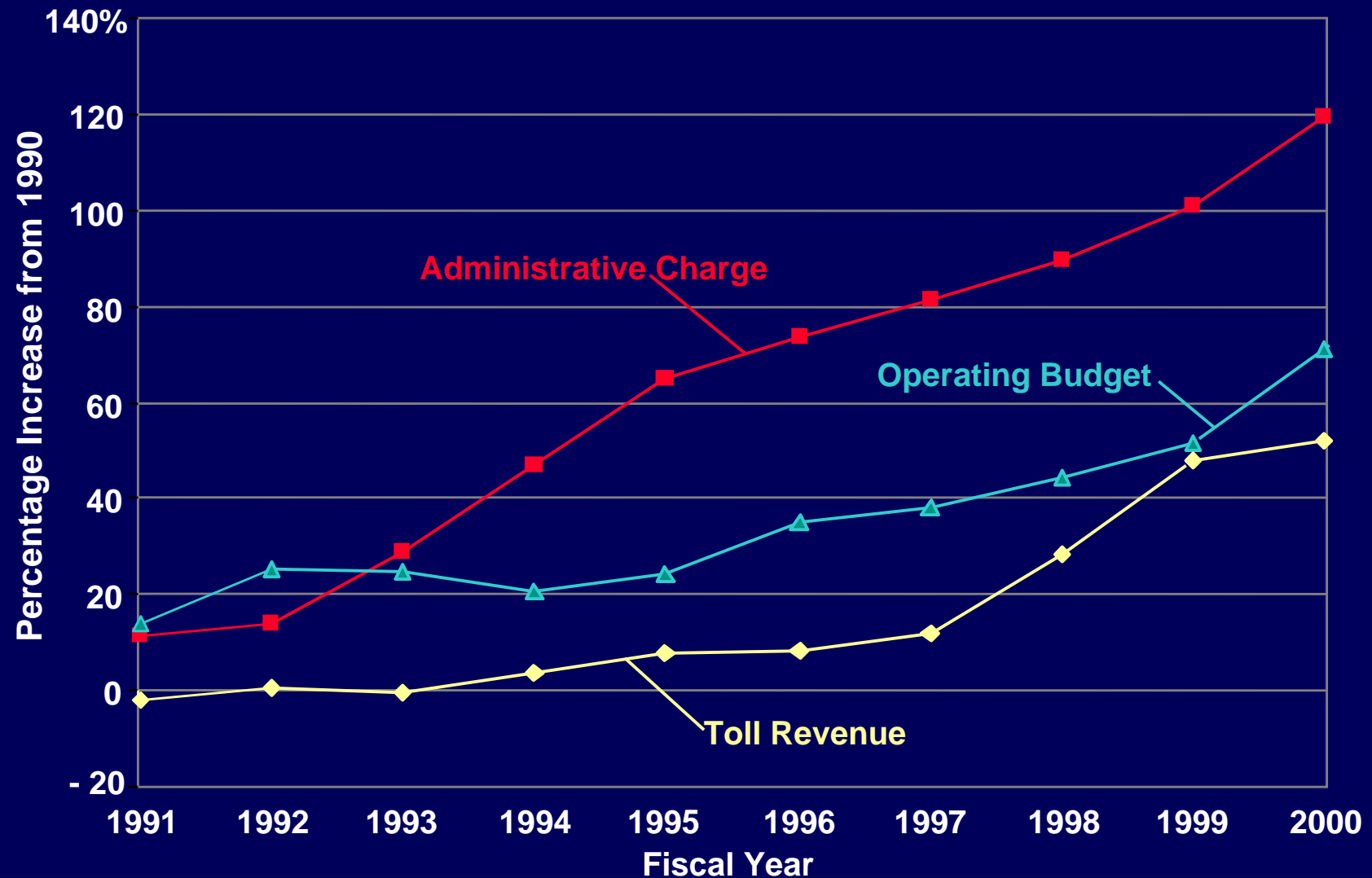
RMA Should Limit Growth of Expressway Administrative and Operating Costs

36

- Unlike other areas of its operations, RMA has more discretion over its administrative and operating expenses
- The cumulative increase in the RMA's expressway operating budget from FY 1990 through FY 2000 was 71 percent
 - Administrative costs charged to the expressway system increased by 120 percent
- Toll revenues increased only 52 percent for the same period

Growth in RMA Expressway System Revenues, Operating Budget, and Administrative Charge from FY 1990

37



Powhite Parkway Extension Toll Revenues Fund State Police Services

38

- Beginning with the State's revenue shortfall in the early 1990s, the Powhite Parkway Extension has been required to fund State Police Services using toll revenues
- Since FY 1993, toll revenue totaling \$3.6 million has been provided for State Police Services on the Extension
 - Debt retirement on the Extension could be expedited if State Police services were financed through other revenue sources

Federal Funding May Be Available for Use on RMA's and VDOT's Toll Roads

39

- In 1996, the RMA declined to accept \$1.7 million in federal funding for the electronic toll collection system
 - RMA staff cited ongoing federal oversight to be the issue that led to their decision to reject funding
- VDOT, based on RMA's decision, also rejected the use of federal funds for the project on the Powhite Parkway Extension
- Federal funds are still an option that could enable both RMA and VDOT to use toll revenue for additional debt retirement

RMA and VDOT Should Maximize Potential of Electronic Toll Collection

40

- **Both the RMA and VDOT implemented electronic toll collection (Smart Tag) on their respective expressway systems in 1999**
- **Smart Tag has the potential to either reduce or limit growth in personnel and capital expenses**
 - **However, neither facility has quantifiable goals for future Smart Tag usage rates**
- **Photo enforcement is an important element to maximizing the benefits of Smart Tag**
 - **However, both facilities need to receive revenue from fines, fees, or administrative costs to cover the costs of photo enforcement systems**

Recommendations

41

- **The Richmond Metropolitan Authority should review expressway administrative and operating costs for areas in which future cost savings can be achieved and dedicated to debt retirement.**
- **If repayment of debt in advance of the current schedule on the Powhite Parkway Extension is determined to be a priority, the General Assembly may wish to consider alternative sources of revenue to replace toll revenue currently used to fund State Police services on the extension.**

Recommendations

42

■ The RMA and VDOT should

- Identify and, when appropriate, consider applying for available federal funding for use on applicable projects on their respective expressway systems
- Establish a quantifiable target usage rate for Smart Tag on their respective toll roads. In addition, both facilities should consider establishing programs designed to achieve the established target usage rate

■ The General Assembly may wish to consider amending the *Code of Virginia* to require that fines, fees, and unpaid tolls for non-payment of tolls be returned to VDOT and the RMA.

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Opportunities for Early Debt Retirement Using Toll Revenue Are Limited

44

- The majority of toll revenue on the RMA expressway system through FY 2006 is allocated for debt service, operations, and maintenance
- About \$2.5 million is projected to be available from the surplus fund through FY 2006
 - However, 50 percent will be allocated to the 1973 bond escrow fund and 50 percent will be allocated to subordinate debt interest
- On the Powhite Parkway Extension, toll revenues are projected to be insufficient to cover annual operating expenses through FY 2006

Powwhite Parkway Extension's Projected Revenues and Expenses, FY 2001 - FY 2006

45



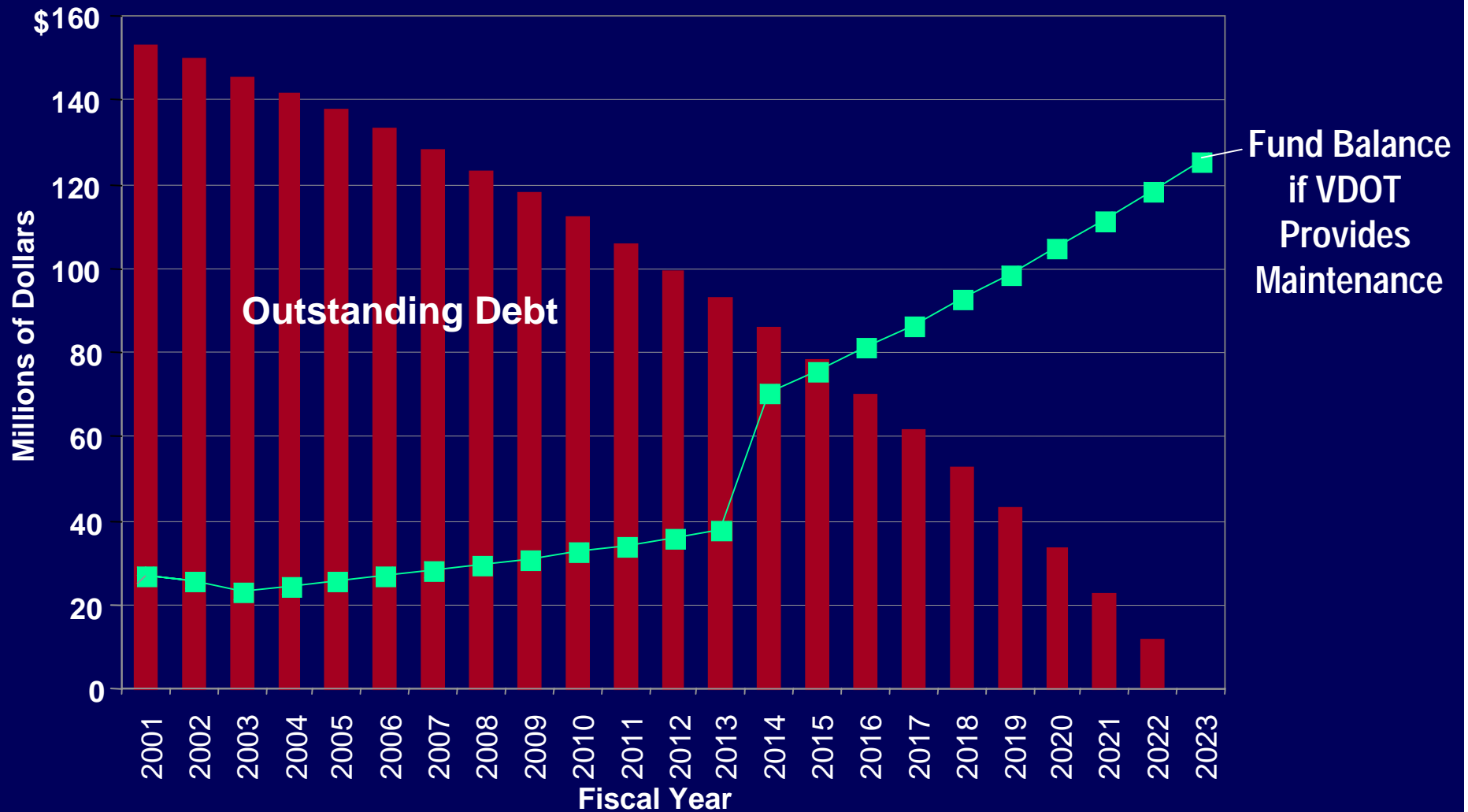
Illustrative Options for Early Retirement of Debt

46

- Maintenance of the expressway system is a major expense for the RMA
 - From FY 1998 through FY 2007, expressway maintenance and capital project expenditures are projected to average about \$4.4 million annually
- If VDOT provided required maintenance on the RMA expressway system, the savings combined with projected fund balances could possibly retire debt by 2015
 - Outstanding RMA subordinate debt would also decline due to increased surplus revenue

Debt Retirement with VDOT Maintenance on the RMA Expressways

47



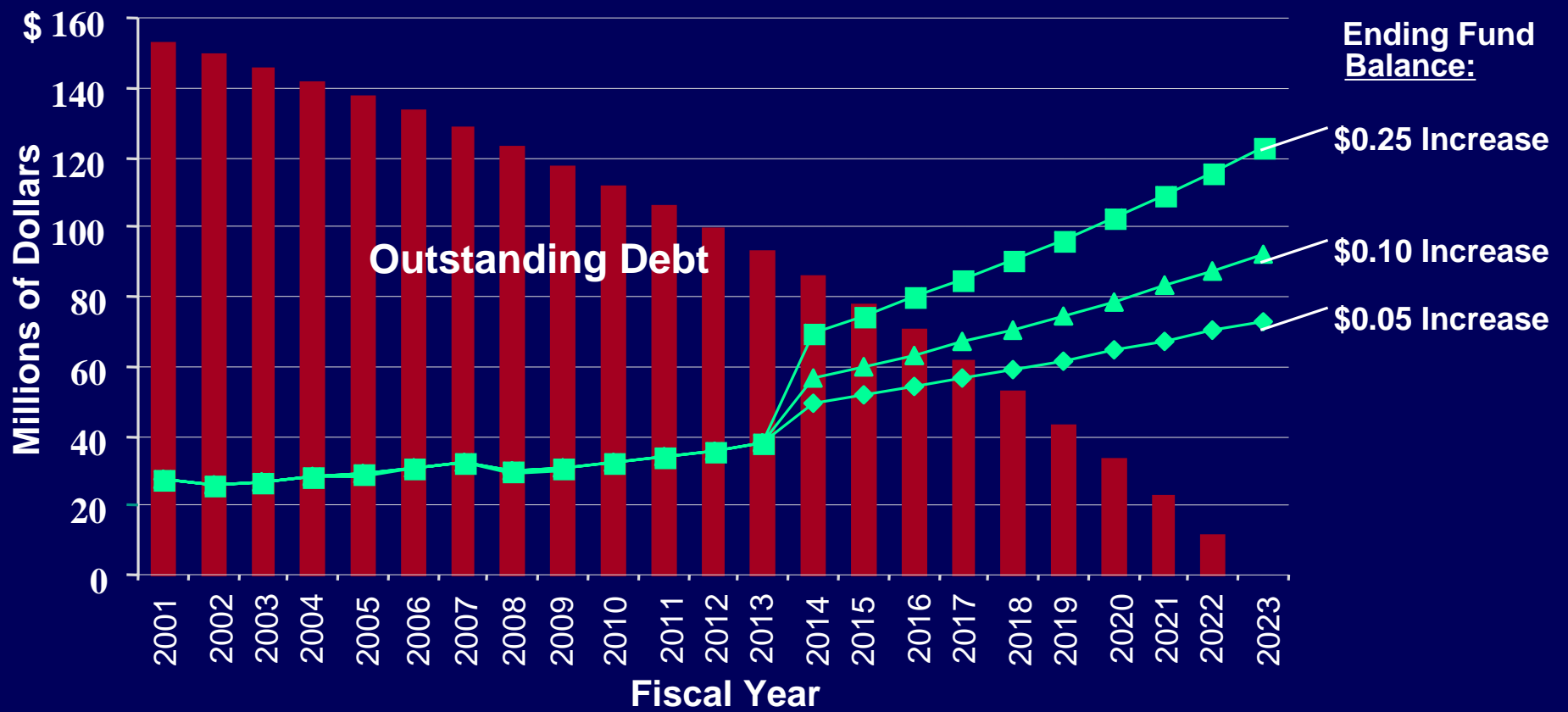
Illustrative Options for Early Retirement of Debt (continued)

48

- A toll increase of \$0.05 on the RMA would yield an average of \$1.2 million in additional revenue annually which could be used for early debt retirement
- The additional toll revenue combined with projected fund balances could enable RMA to retire debt by 2017
 - Outstanding RMA subordinate debt would also decline due to increased surplus revenue
- A toll increase on the Powhite Parkway Extension would also increase revenue enabling the facility to accelerate debt retirement

Early RMA Debt Retirement from Increased Toll Rates

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Illustrative Options for Early Retirement of Debt (continued)

50

- **State or local grants are another option available for providing for early retirement of RMA expressway system debt**
- **An escrow-type fund could be established in which any grants could be deposited and ultimately used to retire senior debt by a predetermined date**
 - **For example, if a decision were made to retire senior debt by July 2013, annual payments to an escrow-type fund of about \$2.8 million would be necessary**
- **State or local grants could also be utilized to retire the RMA subordinate debt owed to the City of Richmond**

Estimated Annual State or Local Grants Required to Retire RMA Senior Debt by Given Date

51

Fiscal Year **Annual Grant Required to Retire Debt on July 15**

2001 **\$123,634,397**

2002 **\$57,934,354**

2003 **\$36,069,400**

2004 **\$25,262,243**

2005 **\$18,510,326**

2006 **\$14,122,836**

2007 **\$11,498,562**

2008 **\$9,185,337**

2009 **\$7,394,726**

Fiscal Year **Annual Grant Required Retire Debt on July 15**

2010 **\$5,965,711**

2011 **\$4,800,223**

2012 **\$3,832,945**

2013 **\$2,764,789**

2014 **\$2,081,836**

2015 **\$1,493,939**

2016 **\$983,662**

2017 **\$537,630**

2018 **\$145,462**

Status of Tolls on Powhite Parkway Extension Will Need to Be Determined

52

- Tolls will be required on the Powhite Parkway Extension until approximately 2018 when all outstanding debt is retired
- However, the *Code* does not require that tolls be removed when all debt is retired
 - VDOT has indicated that would be a decision for the Governor and the General Assembly

Recommendation

53

- The General Assembly may wish to consider amending §33.1-287 of the *Code of Virginia* to require the removal of tolls on the Powhite Parkway Extension after the retirement of all outstanding debt

Retirement of Debt Does Not Require Removal of Tolls on RMA's Facilities

54

- The RMA expressway system will revert to the City of Richmond when senior bond debt is retired
 - *Code of Virginia* authorizes the city to levy tolls for the repayment of debt and the operation and maintenance of the facility
- Tolls would be required until any outstanding subordinate debt is repaid
 - Maintenance costs due to age of expressway system will likely require City of Richmond to maintain tolls after retirement of all subordinate debt

Eliminate City's Authority to Levy Tolls and Provide Additional Funding for Maintenance

55

- One mechanism available for eliminating tolls upon retirement of debt is to remove the City of Richmond's authority to continue to levy tolls on the RMA expressway
- However, maintenance needs of a 50 year old, limited access expressway will likely be substantial
 - City of Richmond's expenditures for street maintenance currently exceed annual State urban street maintenance allocation
- Additional resources would need to be provided to the city to recognize expressway's extraordinary maintenance requirements

Transfer Ownership of Expressway to State After All Debt is Retired

56

- Once all senior and subordinate debt is retired, ownership could be transferred to the State, eliminating need for City of Richmond to retain tolls to fund maintenance
- The expressway would then be included as part of the State's highway network
 - VDOT would be required to maintain the facility
- This option would not require the State to address the many bond covenants and restrictions and would provide time to plan and budget

Transfer Ownership of Expressway to State Prior to Debt Retirement

57

- Ownership of the RMA expressway could be transferred to the State prior to debt retirement
 - RMA's bond resolution notes that the State has the authority to transfer the Authority's powers
- The existing debt, bond covenants, and requirements would still be binding upon the State
 - State's debt capacity could also be impacted by the existing RMA debt
- There is the potential for reduced administrative and operating costs
 - Any savings could be mitigated by transfer costs and funding for police services

Additional Issues Regarding Future of RMA Expressway System

58

- RMA's expressway system currently has seven series of revenue bonds outstanding
 - Some of the bonds have early call provisions while others do not
 - RMA bond holders have no ownership rights but their interests would need to be addressed
- RMA's other facilities and activities may be negatively impacted by a transfer of the expressway system

Additional Issues Regarding Future of RMA Expressway System (continued)

59

- The potential for other toll facilities in the State to make requests for State-supported debt retirement should also be considered
 - Chesapeake Bay Bridge Tunnel
 - Coleman Bridge
 - Dulles Toll Road
 - Dulles Greenway
 - Route 168
 - I-895

Plan for Toll Free Operation of the RMA and Powhite Parkway Extension Roads

60

- The study mandate directed JLARC to develop a plan to ensure toll-free operation of both facilities. To ensure the removal of tolls, the General Assembly may wish to consider:
 - Amending the *Code of Virginia* to transfer ownership of the Powhite Parkway and Downtown Expressway to VDOT upon retirement of senior debt
 - Amending the *Code* to prohibit the RMA and VDOT from issuing any additional debt that extends the current schedule for retirement of senior debt
 - Directing the Commonwealth Transportation Board to identify sources of funding to retire subordinate debt to City of Richmond and the Toll Facilities Revolving Account

Plan for Toll Free Operation of the RMA and Powhite Parkway Extension Roads

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- Creating a task force with members from the RMA, VDOT, Department of Treasury, and the Office of the Attorney General to address legal matters regarding the transfer of ownership of the Downtown Expressway and Powhite Parkway to VDOT
- Amending the *Code* to increase State-appointed representatives on the RMA Board of Directors to ensure that the State's interest in the expressway system are recognized if ownership of the RMA's roads will be transferred to VDOT